UNITED STATES DEPARTMENT OF AGRICULTURE
Rural Electrification Administration
Washington 25, D. C.

AA 3

February 1, 1952

ACCOUNTING AND AUDITING MEMORANDUM 3

SUBJECT: Accounting for Retirement of Line Transformers

Because a line transformer presently is not a unit of property, some borrowers have inquired as to the proper accounting for the retirement of such transformers.

Even though transformers are minor items of property, we recommend that any retirement of such transformers be recorded as if they were units of property. That is, credit Account 358, Line Transformers, with the original cost of the retired transformer and charge Account 144, Retirement Work in Progress. Original cost will include estimated installation labor and overhead allocable to the transformer as distinguished from the labor and overhead applicable to the entire assembly. Salvage material, if any, should be credited to Account 144. The balance in Account 144 should be cleared to Account 250.5, Reserve for Depreciation of Distribution Plant.

This recommendation follows the practice widely used in accounting for this type of equipment. Transformers (as well as meters) are capitalized upon purchase, and the cost of removing and resetting at other locations is an operating expense. To be consistent, the original cost (including installation) should be credited to plant upon retirement as directed in Item B of Account 358, Line Transformers, in the REA Uniform System of Accounts and charged to the reserve for depreciation.

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